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C O N F I D E N T I A L SECTION 01 OF 04 ROME 000156

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TAGS: [ECON](#) [ETRD](#) [IR](#) [IT](#)
SUBJECT: ITALIAN ECONOMIC PRESSURE ON IRAN: HEADING IN THE
RIGHT DIRECTION, BUT MIXED RESULTS SO FAR

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Classified By: DCM Elizabeth Dibble
for reasons (1.4 b and d)

¶1. (C/NF) SUMMARY: Recent statements from senior Italian officials describe Italy as significantly scaling back important commercial ties with Iran as part of efforts to increase international pressure. Those senior Italian officials have noted that the GOI has used moral suasion on Italian companies to encourage them to decrease their economic and commercial ties to Iran. In fact, Italy's commercial ties with Iran have long been relatively insignificant and most of any recent decline in commerce is more likely attributable to the global economic downturn than to any GOI sanctions efforts. The Italian government continues to have very mixed feelings about any sanctions proposals that might cost Italian companies money or irritate the Iranian regime, and trade with Iran continues. The Italians want to have it both ways: they want to be seen as playing a leadership role in the international effort to ratchet up sanctions on Iran, while also wanting to leave the door open to future business deals for Italian companies. There has been Italian cooperation on our Iran sanctions efforts, but almost every "success story" comes with a disappointing caveat: Eni does appear to be bringing its energy projects in Iran to an end, but it is doing so not because of sanctions, but because the project is nearing completion. The Italo-French company Edison has agreed to put exploratory operations in Iran "on hold," but only through 2010. Maire Tecnimont Inc., has agreed to suspend work on a large gas processing plant, but will proceed with a tire manufacturing plant of similar scale. An Italian shipping firm recently agreed to break a partnership with the Iranian state shipping company (IRISL), but IRISL ships will continue to use Italian ports (and the Italian firm will be their shipping agent). The Italian Export Credit and Insurance agency has imposed a de facto ban on new Iran operations, but has not taken the final step to make this action public. Similarly, under the watchful eye of Italian bank inspectors the Rome office of Iran's state-owned Bank Sepah is de facto unable to operate, but the GOI has not taken the final step of officially closing the bank. A number of other banks in Italy have ties to Iran; most are involved in facilitating trade between the two countries.

¶2. (C/NF) Italian queasiness about sanctions plays an increasingly smaller role in all of this, but the disappointing Italian performance can also be attributed to the fact that we have no generalized trade ban on Iran. Recent high-level discussions with senior Italian officials have signaled an increased willingness to cooperate in efforts to increase economic pressure on Iran. An accurate understanding of what Italy has actually done so far should

be of help in efforts to get the GOI to follow-through on pledges to do more. END SUMMARY

GOI CLAIMS EFFECTIVE COOPERATION ON SANCTIONS...

13. (C/NF) During his February 2010 visit to Israel, PM Berlusconi made a number of statements on Italian cooperation with international community efforts regarding Iran. Berlusconi claimed that Italy has reduced its commercial presence in Iran, and said that, "Today only Eni is there with a contract that must be honored, apart from sanctions." He said that Eni had "canceled" the third phase of an important oil project in Iran. He said that since 2007 the government had interrupted its support of exports to Iran, and that since 2009 commercial exchanges between Italy and Iran have dropped by 1/3. Foreign Minister Frattini has made similar statements, and senior officials have pointed out that moral suasion has been applied to Italian companies to encourage them to decrease their economic and commercial ties to Iran. Both officials have sought to portray Italy as making important sacrifices, sacrifices that have damaged an important commercial relationship.

... BUT ITALY-IRAN TRADE WAS ALWAYS SMALL, AND DROP IS LIKELY DUE TO GLOBAL RECESSION

14. (C/NF) Italian officials often claim that Italy is "one of Iran's top trading partners in the EU." While we are sure that statistics can be found to support this claim, we think this is a misleading statement. Iran's major trading partner is, of course, the EU. Italy is one of the largest EU economies, and this inevitably puts Italy near the top of any

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ranking of Iran's trade with EU countries. But it is misleading to imply that trade with Iran is economically important to Italy. In 2007 Italian exports to Iran, (primarily machinery, mechanical parts and appliances) totaled only 1.8 billion Euros, less than one percent of all Italian exports. Italian imports from Iran, primarily oil and petrochemical products, totaled 4.2 billion Euros in 2007, or less than 2 percent of Italy's total imports. Even the often repeated assertion that Italy has a significant degree of energy dependence on Iran is not based in fact. In 2008, only five percent of Italy's energy was imported from Iran. All of it was in the form of readily fungible crude oil. The bottom line is that Iran is not macroeconomically important to Italy, either as a market for Italian exports or as a source of imports. As for the post 2009 decline in Italian trade with Iran (cited by Berlusconi), we strongly suspect that this has much more to do with the global economic crisis than with any Italian sanctions efforts.

(Note: When viewed from Iran, the trade relationship is much more important: Italy buys about six percent of Iranian exports. We think this has long made Italian officials squeamish about eliciting political blowback from the IRIG for overtly reducing trade/quashing deals. We have been reminding the GOI that while Iran is not economically important to Italy, Italy is economically important to Iran; we have been urging the GOI to make use of this leverage.)

EACH SUCCESS COMES WITH A CAVEAT

15. (C/NF) Prime Minister Berlusconi returned to power in April 2008 promising invigorated cooperation with U.S. efforts to increase economic pressure on Iran. An examination of what his government has actually done in this area reveals very mixed results. There have been notable success stories, but most of these successes come with disappointing caveats and provisos:

ENI: READY TO HALT WORK (BECAUSE THE WORK IS DONE)

¶6. (C/NF) The Italian parastatal company Eni has adroitly managed to prevent U.S. or EU sanctions efforts of the last four years from halting its work in Iran. For the last ten years its major project has been the expansion of Iran's Darquain oil fields. In 2000/2001, Eni signed a contract with the Iranians in which they agreed to increase the output from sectors of the Darquain field. Eni -- with support from the GOI -- has insisted that work on this expansion be allowed to continue, claiming that because it is pursuant to an "old" contract its new construction in Darquain does not constitute "new" efforts in Iran. Eni knows that this argument is wearing thin, and that new U.S. sanctions against the company are now possible, so Eni has recently shifted its rhetoric. In January 2010 Eni CEO Paolo Scaroni wrote to senior USG officials announcing that Eni would halt its construction work in Iran within three months. In the letters Scaroni implied that this decision is evidence that Eni is cooperating on Iran, but in follow-up conversations with Embassy officers senior Eni staffers presented it differently: they told us that Eni will be halting its work only because the goal of their contract with the Iranians has been reached, and Eni will now, under the terms of its contract, be able to take a portion of the revenues derived from the Darquain field. Eni and the GOI will almost certainly continue to present this "halt" as an example of enhanced Italian sanctions cooperation. (Note: USG pressure during 2008-2009 does appear to have prevented Eni from signing an MOU with the Iranians that would have led to an even greater increase in output from the Darquain field.)

EDISON: EXPLORATION ON HOLD (THIS YEAR ONLY)

¶7. (C/NF) The Italo-French company Edison is one of the oldest and largest of Italy's energy companies. In early 2008 the USG demarched the Italian government asking it to prevent Edison from signing an exploration contract with the Iranians in the Dayyer (offshore, Persian Gulf) gas field. The USG also informed Edison of the demarche. Edison decided to proceed and, in the presence of the Italian Ambassador in Iran, signed the contract and began the exploratory work. The USG continued to apply pressure on Edison (the company is susceptible to U.S. pressure because it needs USG support for its Turkey-Greece-Italy Caspian pipeline project). Ambassador Thorne personally conveyed U.S. concerns to the

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Edison CEO; Edison shortly thereafter told us that it was suspending its exploration project in Dayyer, but only during 2010, leaving open the possibility of renewed work and possible exploitation of gas discoveries in 2011.

MAIRE TECNIMONT: GAS PLANT HALTED (BUT TIRE PLANT CONTINUES)

¶8. (C/NF) Maire Tecnimont is an important Northern Italy engineering firm with close ties to Eni, to Fiat, and to important Italian government officials. In April 2009 we asked the GOI to halt Maire Tecnimont's 200 million Euro contract in the construction of a major gas processing plant in Tambak, Iran. In August 2009, the Italian MFA informed us that the company had agreed to put the project "on hold." But in a reminder that trade with Iran will continue, web pages indicate that the company will continue work on a 200 million euro pneumatic tire plant for Iran.

ITALIAN SHIPPING FIRM TO BREAK WITH IRAN WMD SHIPPER (BUT IRANIAN SHIPS CONTINUE TO ARRIVE HERE)

¶9. (C/NF) The Genoa-based Cosulich Brothers shipping firm has been partners with the Iranian state shipping company IRISL since before the Iranian revolution. When IRISL was hit with

U.S. sanctions in 2009, the GOI feared that the well-connected Cosulich company would also be sanctioned. With encouragement from the USG, Cosulich is now in the process of breaking its partnership with IRISL. While this should take Cosulich out of the cross-hairs for any U.S. sanctions, Cosulich's Managing Director very candidly told us that IRISL ships will continue to call on the port of Genoa, and that his company is likely to continue to serve as their agent. This is another reminder that as long as the U.S. and EU (or like-minded states) do not take up general trade with Iran as a sanctions matter, sanctions successes such as this one will have little impact. The GOI is unlikely to force a public shutdown of the company that was formed when the partnership was created: The Iranians will probably be allowed to keep the partnership company (IRITAL) officially in business in Italy.

ITALY'S EXIM/OPIC: CLOSED FOR NEW IRANIAN BUSINESS (BUT NOT OFFICIALLY)

¶10. (C/NF) In his comments in Israel about the GOI "interrupting" its support for exports to Iran, PM Berlusconi was referring to SACE, the Italian government agency that has responsibilities similar to our Export Import Bank and our Overseas Private Investment Corporation. GOI officials have told us that SACE has imposed a de facto ban on any new credits or insurance for Iran projects. But a visit to the SACE web site still shows the window for Iran operations to be fully open. Post has discussed this with SACE officials; the GOI apparently wants to keep this situation as is: there will be no new credits or insurance, but this new policy has so far not been made official. And as noted below, the private sector seems to have stepped in to fill the gap left by SACE.

BANK SEPAH: A ZOMBIE (BUT OFFICIALLY STILL ALIVE)

¶11. (C/NF) A similar situation exists with the Rome branch of Bank Sepah (Iran's Army Bank). Italian bank regulators from the Bank of Italy tell us that they have this bank (located a few blocks from the U.S. Embassy) effectively hamstrung and unable to conduct banking business. Every transaction is closely scrutinized. Bank Sepah has reportedly had difficulty paying its phone bills. But -- in a conflict-avoidance gesture similar to that taking place with IRITAL -- Central Bank officials do not want to take the additional step of forcing the bank to legally close, although they have indicated to us that they would do so, if requested by MFA. So in spite of repeated USG request to have the bank officially closed, Bank Sepah remains officially open.

OTHER BANKS STILL WORKING WITH IRAN

¶12. (C/NF) Because trade with Iran continues, banking with Iran continues. Some of Italy's largest banks including

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Intesa Sanpaolo, Banco Nazionale del Lavoro and Mediobanca, all have offices in Tehran. Other important Italian banks (including Unicredit) have correspondent accounts with Iranian banks. Banca UBAE (The Arab Italian Bank) is a large trade finance bank and much of its business is conducted with Iran. At the same time, however, Italy has been an active participant in Financial Action Task Force (FATF) efforts to increase international banking sector vigilance on Iran.

COMMENT

¶13. (C/NF) Part of the blame for these disappointing results

clearly lies with Italians. For much of the first year of the Berlusconi administration, they gave lip-service to a tough approach on Iran, while remaining largely squeamish about tightening sanctions, especially of the ad hoc "like minded" variety that come without UN or EU cover. But, to be fair, much of this mixed result stems from the simple fact that there is no ban on trade with Iran. So, as the Cosulich and Maire Tecnimont cases illustrate, disappointing results are almost inevitable.

¶14. (C/NF) That said, GOI attitudes toward Iran are steadily hardening. Recent discussions between the Secretary and the Secretary of Defense Gates with Prime Minister Berlusconi and Foreign Minister Frattini indicate that the GOI has moved in our direction on the need to increase economic pressure substantially on Iran. The temperature between Rome and Tehran has been further chilled by IRIG attacks on Berlusconi over the Prime Minister's remarks in Israel February 1-3; Frattini has exchanged charge and counter-charge with IRIG officials virtually every day since then. A rowdy Basiji "student demonstration" against the Italian embassy in Tehran (and the French, UK, German and Dutch missions, we understand) will only deepen the irritation here. In terms of our efforts in the immediate task before us -- to get the Italians to do more on sanctions, including turning off new business -- an important first step would be to move the GOI away from its perhaps sincere belief that it has already made some significant steps. U.S. interlocutors should be prepared to point out to the Italians that while we appreciate the steps they have taken, there is more that could be done to increase pressure on Tehran, including by following through on some past actions (SACE, Bank Sepah) to underscore Italian commitment to playing a leadership role on this issue.

THORNE